Fiscal Note 2017 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill #	SB0145	**Title:**	Revise allocation of oil and gas revenue for oil and natural gas impact projects
Primary Sponsor:	Hamlett, Bradley	**Status:**	As Introduced

- ☐ Significant Local Gov Impact
- ☐ Needs to be included in HB 2
- ☐ Technical Concerns
- ☐ Included in the Executive Budget
- ☑ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2016 Difference	FY 2017 Difference	FY 2018 Difference	FY 2019 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
Revenue:				
General Fund	$0	$0	$0	$0
Net Impact-General Fund Balance:	$0	$0	$0	$0

Description of fiscal impact:

SB 145 changes the distribution of the oil and natural gas production tax and allocates a variable portion of the revenue to the oil and natural gas impact relief account. The percentage to this account is a function of the prior five years' worth of total collection data. This bill does not affect existing distributions from the state share of oil and natural gas tax revenue currently allocated to the following recipients: natural resource projects account, natural resource operations account, orphan share account, and university system. In years where the oil and natural gas impact relief account qualifies to receive revenue from the state share of the oil and natural gas production tax, that revenue would be redirected from the general fund allocation of the tax.

FISCAL ANALYSIS

Assumptions:

1. SB 145 creates an oil and natural gas impact relief account and gives the Department of Commerce rulemaking authority for administration of this account. The purpose of the account is to assist local governments that have been required to maintain and expand local government infrastructure as a result of oil and gas development.

2. It is assumed that mathematically, the percent of the state share of the oil and gas revenue that is distributed to the oil and natural gas impact relief account is equal to the following equation. In the equation, $Year_1$ is equal to the total oil and gas revenue collected in the most recent year preceding the current year. Years two, three, four, and five are represented by $Year_i$ in the equation.

$$Oil\ and\ Natural\ Gas\ Impact\ Fund\ \% = \left(\frac{Year_1 - \frac{\left(\sum_{i=2}^{5} Year_i\right)}{4}}{\frac{\left(\sum_{i=2}^{5} Year_i\right)}{4}} \right) \cdot (70\%)$$

3. If the above percentage is less than or equal to zero, the percentage distributed to the oil and natural gas impact relief account is equal to zero.
4. HJ2 estimates for total oil and gas revenue for FY 2015 through FY 2017 were used. OBPP estimated growth rates were used to calculate total revenue for FY 2018 and FY 2019.
5. The following table shows the estimated total oil and natural gas revenue, the state share of total revenue, the percentage of the state share that would be distributed to the oil and gas impact relief account, and the total amount distributed to the oil and natural gas impact relief account. For every year in the table, the amount of revenue in year one was less than the average of the amount of revenue received in the preceding four years. As a result, the oil and gas impact relief account does not receive any allocation over the estimated time period.

Fiscal Year	Total Oil and Gas Tax Revenue	State Share	SB 145 Percentage	Oil and Gas Impact Relief Account
2011	$215,130,000	$110,566,000	N/A	N/A
2012	$210,644,000	$108,135,668	N/A	N/A
2013	$213,229,000	$109,380,403	N/A	N/A
2014	$236,497,000	$121,487,475	N/A	N/A
2015	$203,162,000	$105,556,418	N/A	N/A
2016	$186,054,000	$100,452,228	0%	$0
2017	$192,832,000	$102,728,885	0%	$0
2018	$191,675,000	$102,123,698	0%	$0
2019	$192,538,000	$106,692,529	0%	$0

6. Changes to the accounting system for this bill would result in a minimal one-time cost in FY 2016 which would be absorbed by the department.
7. This bill is effective July 1, 2015.

Long Term Impacts:

1. While for each year that this fiscal note covers the estimated distribution to the oil and gas impact relief account is zero, in some future years this may not be the case. If the amount of oil and gas revenue in a year exceeded the average revenue over the preceding four years, there would be a loss in revenue to the general fund and an increase in revenue to the oil and gas impact relief account created in this bill.

Sponsor's Initials *Date* *Budget Director's Initials* *Date*

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Dedication of Revenue 2017 Biennium

17-1-507-509, MCA.

a) Are there persons or entities that benefit from this dedicated revenue that do not pay?
Yes, this bill revises the allocation of revenue from oil and natural gas production taxes and uses the proceeds for oil and natural gas impact projects through a new program in the Department of Commerce. Taxes will be used to fund infrastructure issues in communities directly impacted by oil and gas development.

b) What special information or other advantages exist as a result of using a state special revenue fund that could not be obtained if the revenue were allocated to the general fund?
A state special revenue account should be established for the program proposed in SB 145 because all expenditures and revenues related to the programs activities would be contained in a single accounting entity.

New section 3 of SB 145 states:

"There is an oil and natural gas impact relief account in the state special revenue fund provided for in 17-2-102. There must be deposited in the account oil and natural gas production taxes, if any, pursuant to 15-36-331(4)(e). The funds must be administered by the department."

The purpose of the account is to assist local governments that have been required to maintain and expand local government infrastructure as a consequence of oil and gas development.

c) Is the source of revenue relevant to current use of the funds and adequate to fund the program activity that is intended? Yes / No (if no, explain)
Yes, to the extent allowed in the bill.

d) Does the need for this state special revenue provision still exist? _X__Yes ___No
A state special revenue account should be established for the program proposed in SB 145 because all expenditures and revenues related to the programs activities would be contained in a single accounting entity.

e) Does the dedicated revenue affect the legislature's ability to scrutinize budgets, control expenditures, or establish priorities for state spending?
No. While legislatively appropriated in HB 2, the funds in question are audited by the Office of the Legislative Auditor with any findings being presented to the Legislative Audit Committee.

f) Does the dedicated revenue fulfill a continuing, legislatively recognized need?
Yes. A state special revenue account should be established for the program proposed in SB 145 because all expenditures and revenues related to the programs activities would be contained in a single accounting entity.

g) How does the dedicated revenue provision result in accounting/auditing efficiencies or inefficiencies in your agency? (Also, if the program/activity were general funded, could you adequately account for the program/activity?)
Yes. A state special revenue account should be established for the program proposed in SB 145 because all expenditures and revenues related to the programs activities would be contained in a single accounting entity.

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The funds deposited in the state special revenue account may be used only for implementing the provisions proposed in the bill.